

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION OF GAINSBORO UTILITIES,)
INC., FOR AUTHORITY TO ACQUIRE THE)
ASSETS OF NETTLECREEK TREATMENT PLANT,)
INC., IN JEFFERSON COUNTY, KENTUCKY;) CASE NO. 9470
AUTHORITY TO BORROW THE NECESSARY)
FUNDS TO FINANCE PURCHASE AND A)
PETITION FOR AN ADJUSTMENT OF THE)
RATES CHARGED CUSTOMERS)

O R D E R

IT IS ORDERED that Gainsboro Utilities, Inc., ("Gainsboro") and Nettlecreek Treatment Plant, Inc., ("Nettlecreek") shall file an original and 9 copies of the following information with this Commission with a copy to all parties of record by March 17, 1986. Gainsboro and Nettlecreek shall be jointly responsible for the responses to this Order. For each response, identify the witness who will be available at the public hearing for responding to questions concerning each area of information requested. If neither the requested information nor a motion for an extension of time is filed by the stated date, the case may be dismissed.

1. With reference to the response to Item No. 20 of the Commission's first request for information, provide the following information:

a. The basis for the methodology used to record the purchase. Include a complete explanation of the reason for

recording the purchase in this manner and cite the sections of the Uniform System of Accounts authorizing such treatment.

b. Provide a complete explanation and/or calculation clarifying how the amounts recorded in each account were derived.

c. As previously requested, provide an ending balance sheet for the seller, Nettlecreek.

2. With reference to the response to Item Nos. 27 and 28 of the Commission's first information request, and Exhibits A and D of the application, provide the following information:

a. A complete accounting of the difference between the \$143,000 borrowed to finance the purchase of the utility and the \$86,012 purchase price. The accounting should include to whom the payments were made, the amount, the purpose, and the date. Circumstances regarding the creation of the liability should be thoroughly explained.

b. How the outstanding liabilities were treated and considered in negotiating the purchase price.

3. With reference to the response to Item No. 8 of the Commission's first information request, the invoices provided in support of the reported \$6,422 test-year maintenance of treatment and disposal plant charges total only \$5,940. Provide a reconciliation between the reported amount and the amount supported by the provided invoices. Also, provide the additional invoices to support the difference.

4. With reference to the response to Item No. 7 of the Commission's first information request, provide the calculation

showing the derivation of the \$170,657 recorded as "the difference between the purchase price and book value."

5. With reference to the response to Item No. 11 of the Commission's first information request, the "new addition" referred to therein, provide the following information:

a. A complete description of the additions and the cost.

b. The date(s) the new additions were placed in service.

c. In consideration that at present only 58 percent of the plant capacity is utilized (141 customers/240 customers capacity [1984 Annual Report, p. 11.]) Why were the new additions considered necessary?

d. State the system capacity prior to and after the placing in service of the new additions.

e. Have these new additions been used for the purpose of providing service to customers?

6. With reference to the response to Item No. 5 of the Intervenor's first data request, provide the following information:

a. State the reasons that these accounts payable were not timely paid.

b. State the services to which the past-due accounts, which resulted in \$1,883 in late payment charges, relate and provide the supporting invoices.

c. State why Andriot-Davidson Service Company, Inc., charges a 1.5 percent per month late payment charge to an associated company.

d. State Gainsboro's policy regarding its order of preference in timely paying its vendors when there is a shortage of funds for this purpose.

e. State Gainsboro's plans regarding the payment of this past due account.

f. Explain the circumstances which resulted in the \$148 telephone bill payment and provide a copy of the telephone bill.

7. With reference to the two previous cases involving this sewer utility, Case Nos. 6968 and 8126, the Commission's finding in both of these cases was that there is contributions in aid of construction associated with the sewer plant. In that regard provide the following information:

a. Explain why Gainsboro did not record an amount of contributions when recording the purchase.

b. Inasmuch as the previous owner imputed a contribution factor of 1/204 of the cost of the sewer plant as part of the cost of each lot, explain why this procedure should not continue under the subsequent owner and reconcile the above practice of the previous owner with the terms of the purchase agreement.

c. As Gainsboro has not proposed an adjustment in this regard, explain why an adjustment should not be made to reflect the exclusion of depreciation expense associated with contributions in aid of construction.

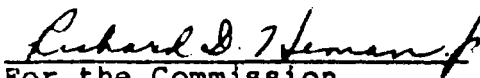
8. With reference to the above cited cases and to Item No. 29 of the Commission's first information request, provide the following information:

a. In case No. 8126, the Commission disallowed interest expense associated with Nettlecreek's long-term debt. The response to Item No. 29 reflects that Gainsboro proposes to include its interest expense on the debt associated with the purchase of the facility as a recoverable expense. Explain why the interest expense on debt associated with the purchase of the utility should be included in revenue requirements.

b. Explain why Gainsboro feels that the transfer is in the best interest of the consumers considering the additional financing costs resulting from the transfer.

Done at Frankfort, Kentucky, this 7th day of March, 1986.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Secretary